

HOUSE BILL NO. 177

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE KELLY

Introduced: 2/25/05

Referred: State Affairs, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to employee and employer contributions to the teachers' retirement
2 system and the public employees' retirement system; and providing for an effective
3 date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * **Section 1.** AS 14.25.050(a) is amended to read:

6 (a) Except as provided in (c) of this section, beginning July 1, 2005
7 [JANUARY 1, 1991], each member shall contribute to the system a percentage [AN
8 AMOUNT EQUAL TO 8.65 PERCENT] of the member's base salary accrued from
9 July 1 to the following June 30, as determined under AS 14.25.052. The employer
10 shall deduct the contribution from the member's salary at the end of each payroll
11 period, and the contribution shall be credited by the system to the member
12 contribution account. The contributions shall be deducted from employee
13 compensation before the computation of applicable federal taxes and shall be treated
14 as employer contributions under 26 U.S.C. 414(h)(2). A member may not have the

option of making the payroll deduction directly in cash instead of having the contribution picked up by the employer.

* **Sec. 2.** AS 14.25 is amended by adding new sections to read:

Sec. 14.25.052. Calculation of member contribution rate. Each active member shall contribute a percentage of the member's base salary to be determined annually in advance by the administrator. The employee contribution rate is the percentage of employee compensation needed to fund the system under AS 14.25.053. The maximum increase in the contribution rate for a member from one year to the next may not be more than five percentage points, as actuarially calculated.

Sec. 14.25.053. Coordination of employer and member contribution rates.

(a) The administrator shall determine the annual amount that is required in addition to the amounts in the retirement fund to provide the benefits of this chapter to all members. The annual amount shall be funded to the extent allowed by AS 14.25.052 and 14.25.070 by equal contributions from employees and employers.

(b) If the annual amount required in addition to the amounts in the retirement fund to provide the benefits of this chapter to all members results in a lower contribution rate for employees and employers than that established for the prior year, then contribution rates shall both be equally reduced by the same percentage points if the employee and employer contribution rates are equal.

(c) In the event that the employee contribution rate is not the same as the employer contribution rate, notwithstanding (b) of this section, the administrator shall raise the employee or the employer contribution rate, as appropriate, on an annual basis, limited by the annual maximum increase in percentage points, so as to increase the lower contribution rate until both contribution rates are the same.

* **Sec. 3.** AS 14.25.070 is amended to read:

Sec. 14.25.070. Contributions by employer. An employer shall contribute to the system an amount equal to the percentage, as certified by the administrator, of the sum total of the base salaries of all members that is required in addition to member contributions to provide the benefits of this chapter times the sum total of the base salaries paid to members, including any adjustments to contributions required by AS 14.25.173(a), by the employer. **The maximum increase in the contribution rate**

for employers from one year to the next may not be more than five percentage points, as actuarially calculated.

* **Sec. 4.** AS 39.35.160(a) is amended to read:

(a) Beginning **July 1, 2005** [JANUARY 1, 1987], each peace officer or fire fighter shall contribute to the system **a percentage** [AN AMOUNT EQUAL TO SEVEN AND ONE-HALF PERCENT] of the peace officer's or fire fighter's compensation **as determined under AS 39.35.162**. Except as provided in (d) of this section, beginning **July 1, 2005** [JANUARY 1, 1987], each other employee shall contribute to the system **a percentage** [AN AMOUNT EQUAL TO SIX AND THREE-QUARTERS PERCENT] of the employee's compensation **as determined under AS 39.35.162**. The contributions shall be deducted by the employer at the end of each payroll period. The contributions shall be deducted from employee compensation before computation of applicable federal taxes, and the contributions shall be treated as employer contributions under 26 U.S.C. 414(h)(2). A member may not have the option of making the payroll deduction directly instead of having the contribution picked up by the employer.

* **Sec. 5.** AS 39.35 is amended by adding new sections to read:

Sec. 39.35.162. Calculation of member contribution rate. Each peace officer or fire fighter shall contribute a percentage of the peace officer's or fire fighter's compensation to be determined annually in advance by the administrator. Each other employee shall contribute a percentage of the employee's compensation to be determined annually in advance by the administrator. The employee contribution rate is the percentage of employee compensation needed to fund the system under AS 39.35.164. The employee contribution rate for peace officers or fire fighters and the employee contribution rate for other employees shall be separately calculated based on the actuarially calculated costs for each group of employees. The maximum increase in the contribution rate for a peace officer or fire fighter or other employee from one year to the next may not be more than five percentage points, as actuarially calculated.

Sec. 39.35.164. Coordination of employer and member contribution rates.

(a) The administrator shall determine the annual amount that is required in addition to

1 the amounts in the fund to provide the benefits of this chapter to all members. The
2 annual amount shall be funded to the extent allowed by AS 39.35.162 and 39.35.250
3 by equal contributions from employees and employers.

4 (b) If the annual amount required in addition to the amounts in the fund to
5 provide the benefits of this chapter to all members results in a lower contribution rate
6 for employees and employers than that established for the prior year, then contribution
7 rates shall both be reduced by the same percentage points if the employee and
8 employer contribution rates are equal.

9 (c) In the event that the employee contribution rate is not the same as the
10 employer contribution rate, notwithstanding (b) of this section, the administrator shall
11 raise the employee or the employer contribution rate, as appropriate, on an annual
12 basis, limited by the annual maximum increase in percentage points, so as to increase
13 the lower contribution rate until both contribution rates are the same.

14 * **Sec. 6.** AS 39.35.250 is amended by adding a new subsection to read:

15 (d) The maximum increase in the contribution rate for employers from one
16 year to the next may not be more than five percentage points, as actuarially calculated.

17 * **Sec. 7.** This Act takes effect July 1, 2005.